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2.1 OVERVIEW

A comprehensive proposal review begins upon receipt of the proposal(s). Without a clear understanding of the proposal review process, proper focus may be lost and key issues missed. This chapter addresses the performance of a comprehensive review and focuses on the following.

- Initial review and review for completeness;
- Validation and verification of cost data;
- Review and incorporation of Quantitative and Qualitative (Q&Q) or other technical inputs and audits; and
- Product analysis.

2.2 INITIAL REVIEW AND REVIEW FOR COMPLETENESS

A preliminary review can provide rapid identification of issues and areas needing clarification. Rapid identification allows prompt corrective action which in turn improves the probability of a thorough, timely analysis.

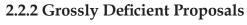
2.2.1 Items to Verify

When an analyst begins an initial review, he or she should focus on several features which are common to most proposals. Table 2-1 identifies these items and their value in the initial review. In addition, the analyst should verify that the contractor's proposal is compliant with Section L of the Screening Information Request (SIR). A thorough method of verifying compliance is by building a matrix listing the instructions for the submission of proposals set forth in the solicitation. This matrix provides a means to track the extent of offeror responsiveness to the specific proposal requirements. In addition, the analyst should review Section M (Evaluation) to ensure the review includes the analysis stated in the evaluation criteria.



Table 2-1. Elements of Proposals

Proposal Feature	Action
Submission of Subcontractor Proposal(s)	Analysis of subcontracts is generally required if the proposed subcontract amount is significant in comparison to the overall cost or price of the effort. (A rule-of-thumb for significance is 10 percent of contract value.) For all significant subcontractor proposals, the analyst should verify that the information submitted is sufficient for analysis and meets the requirements of the solicitation.
CLIN Prices	The analyst should verify that the contract line item numbers (CLINs) reflect the prices shown on the proposal cover sheet and are documented with supporting information. (When not requesting cost and pricing data or information other than cost and pricing data, the CLIN pricing in Section B may be the only price information provided.)
Proposal Coversheet	The analyst should verify that a signed, valid coversheet is provided if cost and pricing data or information other than cost or pricing data are included. The coversheet provides the following offeror information: • Address, • Point of contact, • Place and period of performance, • Price by line item, and • Cognizant Administrative Contracting Officer and DCAA offices and addresses. The signature on the cover sheet grants the right to review all documents, records, and other supporting information.
Appropriate Format	The analyst should verify that the proposal is formatted in an acceptable manner including a completed Section B. With the exception of Section B, the offeror's own format is the norm, but the FAA may dictate a specific format to expedite the evaluation process. All data should be legible and complete.



Normally, the contracting officer (CO) will review all proposals for gross deficiency before the analyst sees the proposals, but this is not

Grossly deficient describes a proposal that is totally unacceptable on its face, i.e., proposal is missing exhibits or has omitted back-up data, and would require an extensive rewrite before it could

always the case. After performing the preliminary review, the analyst may conclude that a proposal is grossly deficient. For example, the proposal may not include required supporting data. In this case, the grossly deficient proposal should be referred to the CO for possible elimination from further consideration.

2.2.3 Initiating Technical and Audit Assistance

The last step of the initial review is to determine if technical and audit assistance is required. Technical assistance is provided to the analyst through a quantitative and qualitative (Q&Q) evaluation conducted by the program office while audit assistance is usually provided by the Defense Contract Audit Agency (DCAA). If the CO has not provided the Q&Q team with the necessary proposal information (bases of estimates, bill of materials etc.), the analyst should do so. If DCAA assistance is required, the analyst should ensure that DCAA has the appropriate information they need to conduct an audit or rate verification. Generally audits are required for evaluation of cost and pricing data but are not necessary for pricing evaluation; however, the decision in both cases rests with the CO and pricing analyst.

2.3 VALIDATE AND VERIFY COST DATA

Proposal validation is the process of ensuring that back-up data accurately supports the cover sheet and CLIN prices or estimated cost. It is especially necessary for proposals with detailed supporting information. Validation does not imply the reasonableness of the price or estimated cost--that is the purpose of price or cost analysis.

2.3.1 Standard Validation Actions

Validating proposal contents includes checking for cost traceability, correct mathematical calculations, proper rate applications, and labor consistency. Areas of review when performing proposal validation are provided in Table 2-2.



Table 2-2. Areas of Proposal Review

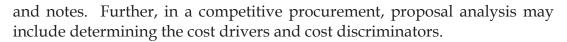
Areas of Review	Action
Traceability of Costs	Verify that backup or low level detailed data sums feed correctly into the higher level, summary information.
Application of Labor Rates	Confirm that appropriate labor rates are applied correctly to the corresponding direct labor category.
Escalation of Rates	Verify that out-year rates are escalated correctly in accordance with the offeror's methodology. (This is not necessary if Forward Pricing Rate Agreements are provided.)
Computation of Composite/Wrap Rates	Verify that computations used to calculate any composite/wrap rates are correct.
Application of Indirect Rates	Verify that overhead rates are correctly applied to the appropriate bases.
Computation of Facilities Capital Cost Of Money (FCCOM)	Verify that calculation for FCCOM is correct and is computed using the appropriate Treasury Rate as prescribed by the Secretary of the Treasury under Public Law 92-41. www.treasurydirect.gov/govt/rates/tcir/tcir_opdprmt2.htm
Computation of Profit/Fee	Confirm how profit/fee is computed. Calculate profit/fee on total cost less FCCOM.
Consistency	Confirm that there is consistency between the proposed labor hours, skill mixes, and Basis of Estimates (BOEs).

2.3.2 Utilizing Cost Models as Validation Tools

Cost models are an efficient means of validating proposal costs. Several actions identified in Table 2-2 can be performed with greater accuracy by utilizing cost models. Automated cost models help verify that proposal calculations are correct because the traceability and computation of costs from back-up data to summary levels are quickly and easily verified. Cost models also serve as a vehicle to accurately perform "what-if" scenarios, incorporate negotiated cost adjustments and document Government negotiation objectives and negotiation results. A technical description and an in-depth explanation of cost models are provided in Chapter 3, "Automated Cost Models".

2.4 REVIEW AND INCORPORATE Q&Q AND AUDITS

Once the proposal is validated, significant analysis can begin. Proposals should be analyzed in accordance with the Cost Evaluation Plan and Section M of the screening information request. The proposal analysis stage involves conducting cost and/or price analysis and reviewing proposal assumptions



2.4.1 Conducting Cost and/or Price Analysis

Proposed costs are evaluated using cost and/or price analysis. Cost analysis includes reviewing and evaluating each cost element and proposed profit. Cost analysis is the more detailed method of evaluation, whereas price analysis consists of a higher level of analysis, examining the proposed price(s) without reviewing the separate cost elements and proposed profit. Methods of conducting price analysis are discussed in Part II of this Handbook, and methods of analyzing specific cost elements are discussed in Part III of this Handbook.

The analyst uses cost and/or price analysis to determine if the prices or costs are allowable, reasonable, and realistic. If found to be unreasonable or unrealistic, the analyst determines what adjustments should be made to arrive at a reasonable and realistic price. The results of the cost and/or price analysis should be included in the calculation of a most probable cost or FAA pre-negotiation position.

There are two scenarios that the analyst should be aware of when compiling the results of cost and/or price analysis. One is that a contractor may attempt to "buy-in" to a contract award. A "buy-in" introduces the risk of costs escalating out of control and the risk that the contractor will not be able to complete performance on the contract. If the analyst believes a proposal to be a "buy-in", the analyst should alert the CO and should consider the associated risks when developing a cost position. The second scenario is an unbalanced offer. If cost and/or price analysis reveals that some contract line items

are significantly understated while others are significantly overstated, then the offer may be materially unbalanced. If the offer is materially unbalanced, then the analyst should review it. The CO may wish to reject a materially unbalanced offer.

Materially unbalanced refers to an offer that is mathematically unbalanced and there is reasonable doubt that the offer would result in the lowest overall cost to the FAA; or the offer is so grossly unbalanced that its acceptance would be tantamount to allowing an advance payment. [FAA AMS Procurement Guidance T.3.2.3A1.j]

2.4.2 Reviewing Proposal Assumptions and Notes

Cost proposals consist of far more than numbers. Toward the front of most cost proposals, the contractor usually includes assumptions and proposal notes. A contractor's proposal is usually based on several assumptions, e.g., the performance period, the date government-furnished property (GFP) will be received, and assumptions about **statement of work (SOW)** ambiguities. The analyst should carefully review the assumptions made by the contractor.

Advice from the CO or technical representatives may be necessary to determine the validity of the contractor's assumptions. If any assumptions are determined to be invalid, this determination and the anticipated cost impact should be included in the analyst's report.

The proposal notes may contain a variety of information, such as errors in the proposal, definitions of terms, the general organization of the proposal, and cost options or alternatives. These notes may clarify issues raised when the proposal was validated. They may also contain data that will aid the analyst in understanding some of the price data presented in the proposal. The analyst should thoroughly read all proposal notes and should consider them when conducting cost and/or price analysis and compiling the results of analysis.

2.4.3 Determining Cost Drivers and Cost Discriminators

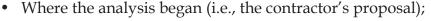
In a competitive procurement, the results of the proposal review will be a factor in determining which offeror is awarded the contract. Since contracts are generally not automatically awarded to the offeror with the lowest price/cost, the analyst may need to determine the cost drivers and cost discriminators that will aid the FAA in assessing which offer is the best

Best value is the solution that is most advantageous to the FAA, based on the evaluation of price and other factors specified by the FAA. This approach provides the opportunity for trade-offs between price and other specified factors, and does not require that an award be made to either the offeror submitting the highest rated technical solution, or to the offeror submitting the lowest cost/price, although the ultimate award decision may be to either of these offerors. [FAA AMS Appendix C (Definitions)]

value. Cost drivers are the largest components of cost within an offeror's proposal. For example, in a research and development contract the cost driver will probably be engineering labor. Cost discriminators are the components of cost that distinguish one offeror's proposal from the proposals of other offerors. Cost discriminators are often related to technical discriminators and reveal areas for cost trade offs. For example, one offeror proposes to use a computer that is twice as expensive as what the other offerors have proposed. The cost of the computer is a cost discriminator. Discriminators are very important to the source selection process. It is the analyst's responsibility to determine the cost discriminators.

2.5 DOCUMENTATION OF FINDINGS

Every cost and/or price analysis requires accurate and adequate documentation to record and convey its conclusions and recommendations to others. Documentation provides the road map that should clearly show the following:



- What analysis was performed; and
- What recommendations/conclusions were made.

This documentation is provided in the form of a report often referred to as the Cost/Price Evaluation Report. The following sections will discuss the purpose, nature, and content of the documentation.

2.5.1 General Considerations

The Cost/Price Evaluation Report should provide complete traceability of all evaluation activities from initial analysis to the conclusion of evaluation. An accurate and thorough Cost/Price Evaluation Report serves the following functions:

- 1. Provides the CO the necessary information to negotiate with the contractor;
- 2. Enables parties external to the evaluation to reconstruct the procurement;
- 3. Facilitates resolution of future disputes; and
- 4. Supports decisions made during procurement and deters "Monday Morning Quarterbacking"; i.e., documentation may show that what appears to be a questionable decision was very prudent in light of available information, circumstances, and expectations before and during negotiations.

The universal key to all documentation is to keep it concise. The documentation should be tailored to correspond with the dollar value and the complexity of the procurement. The desired goal is to clearly convey the analysis and the road map without burdening the reader with non-value-added material. Too much or too little will obscure the value of the documentation by making it difficult to follow and understand.

2.5.2 Report Contents

The cost and/or price analysis should result in either 1.) the sustainment of the proposed price/estimated cost as fair and reasonable, or 2.) the calculation of a different figure that is considered fair and reasonable. These findings should be clearly presented to the CO in the Cost/Price Evaluation Report. The CO should be able to review the report and understand not only the findings and recommendations but the supporting rationale. This complete understanding is necessary for the CO to successfully evaluate the recommendation, establish the objective, and defend these positions both internally to management and externally to the contractor.



The analyst should ascertain the desires of the CO in regard to the level of detail and format of the report before writing. Table 2-3 provides a summary of typical information included in a Cost/Price Evaluation Report (not necessarily in the same order). However, the Cost/Price Evaluation Report should be tailored specifically for each procurement and in some cases, not all the information in Table 2-3 is applicable. The analyst must use his or her judgment when determining the essential items to be presented in the Cost/Price Evaluation Report.

Table 2-3. Elements of A Cost/Price Evaluation Report

Areas of Review	Action
Contract Information	Contractor name and address, contract title and number, CO, contract type, date of the proposal (and any updates), brief description of the work.
General Discussion	Brief overview of the analysis performed and general conclusions; cost summary highlighting contractor proposed costs, questioned costs, and the recommended position; resources utilized during the analysis, e.g., DCAA Audits or rate verifications, Quantitative and Qualitative (Q&Q) evaluations, market surveys, fact finds, correspondence.
Cost Element Summary	Provide a table showing the proposed, questioned, and recommended positions by cost element.
Cost Element Discussion	When the determination of price reasonableness is based on some form of cost analysis, discuss the analysis of each cost element, show the proposed and the recommended positions, address the contractor's methodology of proposing, and discuss the rationale for the recommended position to include incorporation of or disagreement with DCAA or Q&Q reports. Elements should be discussed in the same top-down order as presented in the cost element summary. This discussion can be provided on an overall, CLIN, or WBS level. Cost elements include, but are not limited to, Labor, Material, Other Direct Costs, Subcontracts, Overhead (Burdens), General and Administrative expense, Facilities Capital Cost of Money, Profit/Fee.
Cost Drivers	Identify by CLIN, WBS, and/or functionality where the majority of the costs are contained, i.e., the areas which contain the greatest cost to the Government.
Cost Discriminators	The strengths, weaknesses, or factors which differentiate an offeror from another in a competitive environment.
Major Assumptions	List any assumptions on which the contractor's proposed costs or the analysis hinges. Qualitatively and/or quantitatively assess the impact on cost if the assumptions are incorrect.
Risk Assessment	Identify and assess the overall cost risk associated with the proposal.



It is important for the analyst to understand the comprehensive proposal review process. The analyst will need to follow this process every time a cost proposal is received. Specifically, the analyst must understand the concepts and guidelines listed below:

- Preliminary review;
 - ⇒ Initial review
 - ⇒ Grossly deficient proposals
 - ⇒ Determining level of assistance
- Proposal validation;
 - \Rightarrow Areas of review
 - ⇒ Utilization of cost models to facilitate validation
- Proposal analysis; and
- Documenting findings.